Hearing on FY 2004 Appropriations

U.S. Senate
Subcommittee on VA, HUD, and Independent Agencies

Written Statement

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DEPARTMENT OF THE TREASURY
Community Development Financial Institutions Fund

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INTRODUCTION

Chairman Bond, Ranking Member Mikulski and Members of the Subcommittee, I appreciate the opportunity to testify before you today on behalf of the Department of Treasury's Community Development Financial Institutions (CDFI) Fund and in support of the President's FY 2004 budget. Last year was my first visit before this honorable body.

I am Tony Brown, Director of the CDFI Fund. The Secretary of the Treasury selected me to serve in this post in August 2001. I bring a 20-year prior experience in banking and a personal passion for community development finance. Joining me today are my Acting Deputy Director for Policy and Programs (Linda Davenport) and Deputy Director for Management/Chief Financial Officer (Owen Jones).

I characterize my visit before you today as filled with a great sense of accomplishment and enthusiasm for the potential of the CDFI Fund. Our goal is to help make America a place where all of its people, including those in economically distressed communities, can realize the American dream through better access to credit, capital and financial services. FY 2003 has been a transition year where the Fund has shifted from primarily a grants-making organization to one aimed at measurably improving the economic conditions of the residents of low-income communities by spurring economic growth and jobs through community development finance.

The CDFI Fund aims to do this primarily through the New Markets Tax Credit (NMTC) Program, the Community Development Financial Institutions (CDFI) Program, the Bank Enterprise Award (BEA) Program, and the Native American CDFI Development (NACD) Program.

My testimony today will focus on three key areas: the President's FY 2004 budget proposal; the CDFI Fund's management and operations in FY 2003; and some background on the CDFI Fund programs.

PRESIDENT'S FY 2004 BUDGET

The President's FY 2004 budget requests a $51 million appropriation for the CDFI Fund. The proposed budget supports the administration of the NMTC Program, the CDFI Program, the NACD Program, and the BEA Program. Because the NMTC Program involves an allocation of tax credits rather than program funds, all costs associated with the development, implementation and monitoring of the NMTC Program are administrative. The $51 million appropriation is expected to leverage $442 million in other private and public resources, a leverage ratio of 12:1. The leverage ratio excludes funds appropriated for administrative purposes and does not include leverage data associated with the NMTC Program. This appropriation will help support the creation or maintenance of 24,000 jobs and the rehabilitation of 26,000 affordable housing units. The Administration's request reflects the following factors:

First, the NMTC Program is aimed at achieving similar economic development objectives as the CDFI and BEA Programs.

Second, the NMTC Program is vastly larger in scope than the other CDFI Fund programs. The first year NMTC Program allocation authority of $2.5 billion is some 50 times larger than the entire CDFI Fund request.

Third, the Administration currently is considering possible legislative changes to the BEA Program. In the near future, I expect that we will consult with Congress regarding legislative options that would clearly distinguish the program from the mandates of the Community Reinvestment Act and ensure that awardees use BEA Program awards for community development activities. In FY 2002 - 2003, the CDFI Fund's own internal evaluation of the BEA Program concluded that the program needed to be re-formed so that awards would be better targeted to wealth-building activities and outcome-based performance goals to better track the program's impact would be adopted. The Fund's adopted these regulatory modifications for the FY 2003 funding round.

Fourth, this proposed FY 2004 funding level, reflecting a division of resources, is adequate to continue an effective baseline funding level in each program, particularly in light of the reforms put in place in recent months. The recent reforms reflect the organizational maturity of the CDFI Fund and the CDFI industry so that a better, more targeted effort is now possible, focusing on opportunities where real needs can be addressed through sustainable economic development.

The proposed FY 2004 budget includes increased funding for administrative expenses to $13 million to support staffing requirements of the NMTC Program and technology requirements to enhance our support for E-grants and E-government. The E-grant and E-government activities support a "green rating" received from The Department of the Treasury on the Presidential Management Agenda Scorecard.

MANAGEMENT AND OPERATIONS

Internal Financial and Management Controls. The CDFI Fund has implemented effective financial and management controls, as verified by its independent auditors (KPMG, LLP). These controls have allowed the CDFI Fund to receive an unqualified (clean) audit opinion. Additionally, this marks the fifth consecutive year that the independent auditors have identified no material weaknesses or reportable conditions. KPMG's opinion affirms that the CDFI Fund's Statements of Financial Position, Operations, and Changes in Net Position and Cash Flow are fairly presented. These findings reflect the commitment of the CDFI Fund to sustain and improve its internal controls, operating policy and procedures, and awards management.

The CDFI Fund continues to comply with the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). The CDFI Fund's internal management systems, accounting and administrative controls are operating effectively.

Administrative Processes. During my tenure as Director, I have spent a significant amount of time reviewing the CDFI Fund's internal operations. We have made successful changes that have streamlined our awards process. In FY 2002, we successfully reduced the amount of time required for our award processes. In a September 2002 Treasury Office of Inspector General audit report titled "CDFI Fund Post-Award Administration Process," the OIG concluded "that the CDFI Fund's post-award administration process is effective in ensuring that CDFI award recipients are carrying out their activities in accordance with their assistance agreements." The report further states, "[T]he Fund has taken steps to reduce the length of time that it takes to disburse funds. These steps include Program and Compliance staff performing a compliance and matching funds analysis, implementation of the Reports Monitoring Database, and revising how it processes assistance agreements."

Integration of New Programs. We successfully integrated the NMTC Program within our existing operations without increasing the number of new employees above FY 2001 levels. One of the most significant E-government initiatives undertaken by the CDFI Fund in FY 2002-03 was the implementation of electronic applications for the NMTC Program, facilitating ease of the application scoring process and metrics for various management reports by having captured data readily available for analysis and reporting. This was an overwhelming success and the CDFI Fund is moving forward to introduce electronic applications for each of its financial assistance programs in FY 2003.

Compliance and Portfolio Monitoring. In FY 2004 and beyond, we will continue to enhance the CDFI Fund's research capacity, implementing market and portfolio analyses to measure the availability of financial services in underserved markets and to critique the financial and program performance of existing CDFIs. The CDFI Fund has an investment portfolio of over 600 awards, totaling over $500 million currently under compliance review.

Measuring Investment Impact. The CDFI Fund places a high priority on measuring impact and is in the forefront of improving performance reporting within the CDFI industry. The CDFI Fund is building on its experience with the CDFI Data Project, an initiative undertaken by the CDFI Fund and CDFI industry representatives, to develop a more sophisticated data collection system for CDFIs and CDEs that will allow for the collection of transaction-level data to provide the specific location and characteristics of each loan in a CDFI/CDE's portfolio, thus allowing the CDFI Fund to measure impact at the census tract level. The CDFI Fund plans to use this data to compare CDFI/CDEs' lending behavior and community development impact to that of traditional financial institutions and thus demonstrate that CDFI/CDEs lend in areas where traditional banks have less of a presence.

You will notice a significant difference in the format of the FY 2004 budget submission. In the past, the CDFI Fund reported nearly 20 measures, mostly measuring activity outputs. The introduction of our FY 2004 budget complies with the President's mandate for integrated budget performance measures. The CDFI Fund received a "green rating" from the Department of the Treasury in its latest scorecard reporting for this Presidential Management Agenda initiative.

The stated objectives of the CDFI Fund have been simplified to three key statements: (i) increase financing to businesses (including non-profit businesses) and individuals that have low wealth, have limited collateral, are located in underserved communities, or have other characteristics that inhibit them from obtaining financing from traditional financial sources, but who present good opportunities for assistance promoting sustainable economic development in the community; (ii) expand the supply and quality of housing units in underserved communities and increase homeownership in these markets by increasing the availability of housing financing that leverages conforming mortgages or non-traditional sources of housing finance; and (iii) expand access to affordable financial services for the "unbanked," low-income people and others in underserved communities.

New baseline performance measures have been established and set into motion this year, through the CDFI Fund's FY 2003 programs, and include better tools for tracking investment results and the use of the CDFI Fund's awards. We will continue the process of improving the CDFI Fund's programs by evaluating for measurable results, targeting resources through sustainable financial institutions, with an emphasis on supporting financial services that impact our nation's most distressed areas.

Interagency Cooperation. The CDFI Fund has worked very closely with the Internal Revenue Service to develop the guidance and regulations necessary to implement the NMTC Program; engaged in extensive discussions with the Small Business Administration on how to best match the NMTC Program requirements with the SBA's New Markets Venture Capital Program; and conducted numerous meetings with the

General Accounting Office to determine appropriate compliance and performance measurement requirements for NMTC Program allocatees.

Investment Underwriting. The CDFI Fund will use the new data collection system to implement PLUM, a new CDFI performance rating system. PLUM stands for Performance/community development impact; Liquidity and overall financial condition; Underwriting/portfolio quality; and Management capacity. Based on these four broad components, the CDFI Fund will use PLUM to rate each certified CDFI's financial strength and level of community development impact. The CDFI Fund's plan is to use this rating system to better manage its investment portfolio by creating a compliance "watch list" of under-performing entities, and to identify and promote best practices in the industry. Eventually, we plan to incorporate PLUM in the Fund's award underwriting process.

E-Gov Enhancements. The CDFI Fund will soon announce a new electronic web-based customer relationship tool called "myCDFI." This new tool will assist interested parties with a variety of services from a single location. The initial services to be offered through myCDFI include: access to all program electronic applications; access to historical electronic applications (read-only mode); self service address and organizational information updates; ability to create and maintain additional user accounts with various access levels; ability to access target service area information created while using the CDFI Fund Help Desk (including Hot Zones); and access to a message box for communication with CDFI Fund staff. Additional features will be added in the near future, including the ability to submit electronically reports required by the CDFI Fund per award agreement terms.

CDFI FUND PROGRAMS OVERVIEW

The strategic goal of the CDFI Fund is to improve the conditions of economically distressed communities by enhancing greater access to capital and other financial services through CDFIs (which generally are small business and housing loan funds, as well as regulated, community-oriented depository institutions), CDEs (which include for-profit and nonprofit corporations and partnerships), and insured depository institutions (banks, thrifts and credit unions).

The approach for investing in CDFIs includes three major strategies:

1) focusing CDFI Program awards on the nation's most economically distressed areas;

2) establishing a "growth continuum" strategy in award decisions, through which awards are provided to support CDFIs to the point where they can be self-sustaining, thus permitting the CDFI Fund to provide assistance to CDFIs with unmet capital needs in other distressed communities; and

3) taking actions to obtain the information necessary to measure and report on the impact of the CDFI Fund's programs.

Targeting CDFI Fund Resources: The authorizing statute allows the CDFI Fund to provide incentives for the purposes of facilitating increased lending and provision of financial and other services in economically distressed communities. The economic distress definitions vary among the CDFI Fund's programs.

The CDFI Fund views its partnership with CDFIs, CDEs, and insured depository institutions as a catalyst for vigorous community and economic development financing activity. In FY 2003, the CDFI Fund introduced "Hot Zones" to the CDFI Program to help prioritize and direct the CDFI Fund's limited investments. By managing CDFI Fund resources to entities that serve Hot Zones, our dollars will be prioritized for investments into areas with the greatest needs and among CDFIs that can produce strong measurable impact.

Targeting Resources Geographically

		CDFI Program		**BEA Program**	**NMTC Program**
	National Total	**Eligible Investment Areas**	**Hot Zones**	**Eligible Distressed Communities**	**Eligible Low-Income Communities**
Total Metro Census Tracts	52,241	20,093	10,851	1,670	19,732
Percent of National Metro Tracts	100%	38%	21%	3%	38%
Non-Metro Census Tracts	14,063	4,966	NA	656	6,605
Percent of Non-Metro	100%	35%	NA	5%	47%
Total Tracts	66,304	25,059	NA	2,326	26,337
Percent of National	100%	38%	NA	4%	40%
Non-Metro Counties	2,319	743	285	NA	NA
Percent of National	100%	32%	12%	NA	NA

Sources: 2000 Census data, U.S. Dept. of Housing and Urban Development 2002 Difficult Development Areas. Figures do not include outlying territories other than Puerto Rico.

Hot Zones are a subset of CDFI Program Investment Areas designated by the CDFI Fund as having greater economic distress and community development needs. They are the "most distressed" of the nation's distressed markets. Hot Zones have been identified based on census data and include, among other factors, areas with a poverty rate of at least 20 percent, income levels at or below 80 percent of the area median income, unemployment rates that are at least 1.5 times the national average, and housing costs that exceed 30 percent of the gross monthly income of a low-income household.

States that have the highest percentage of non-metropolitan Hot Zones – such as Mississippi, Kentucky, Montana, and Arizona – also have significant non-metropolitan persistent poverty populations (see Figures 1 and 2, below).

Figure 1.

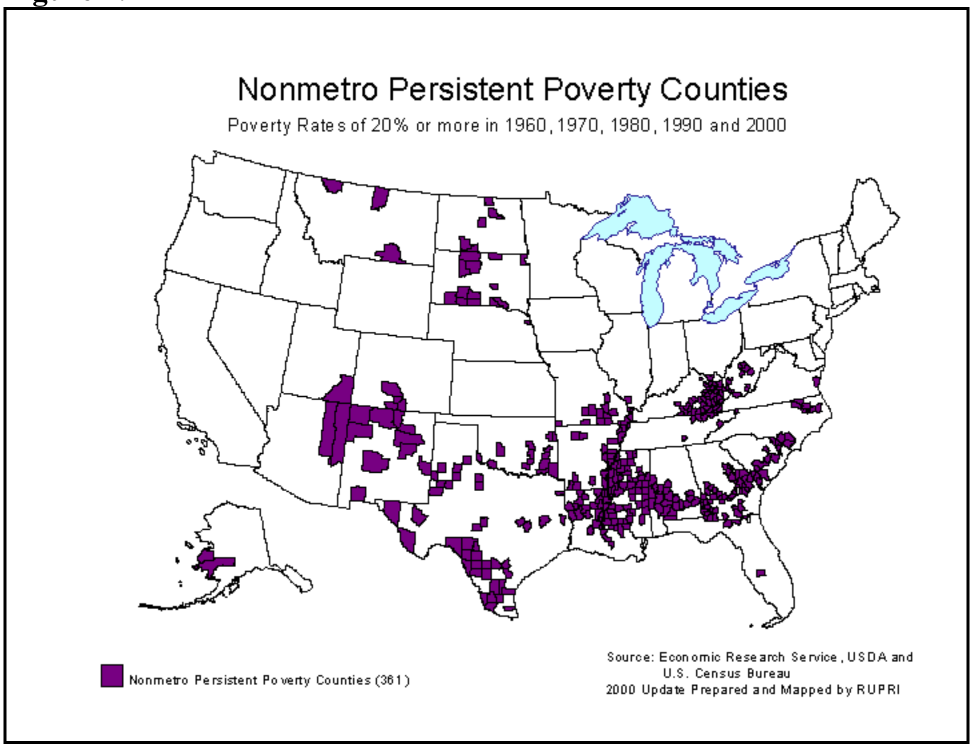
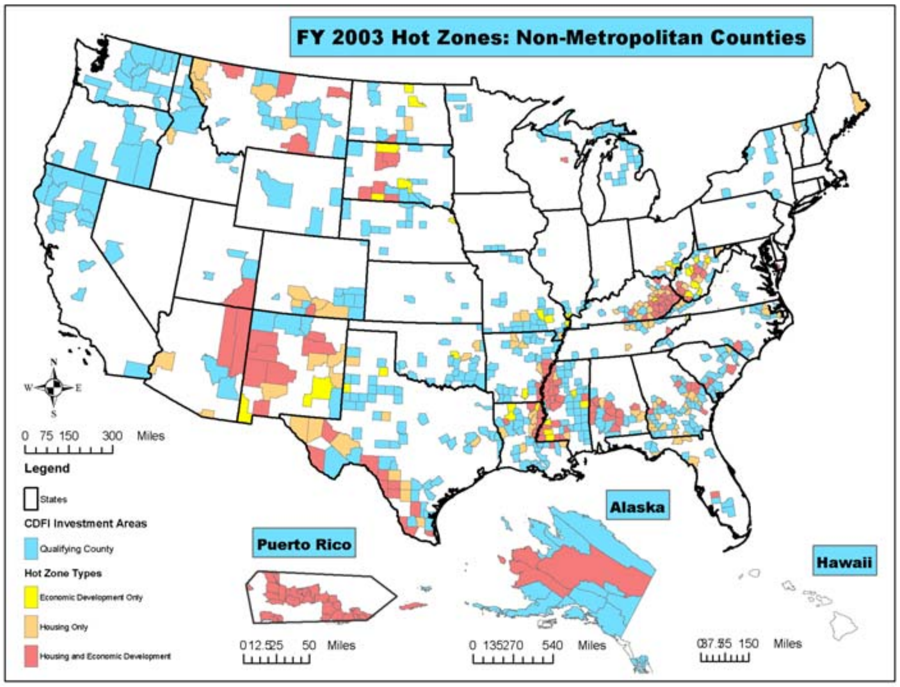


Figure 2.



In the FY 2003 round of the Financial Assistance Component of the CDFI Program, the CDFI Fund will target its resources to CDFIs that will use the award proceeds to serve Hot Zones and/or achieve the programmatic priorities of increased homeownership opportunities that are affordable to low-income households and homeownership opportunities for other targeted populations lacking access to loans, investments and financial services.

In its evaluation of applications, the CDFI Fund will give the most points to those applicants that show that at least 75 percent of their activities will be directed toward Hot Zones. Applicants that are not principally serving Hot Zones may be scored to receive the most evaluation points if they demonstrate an effective track record and plan for promoting homeownership opportunities among low-income, very-low income and other targeted populations.

Eligible geographic areas under the BEA Program are called Distressed Communities and include communities that meet certain criteria of economic distress, including Indian Reservations. Specifically, a Distressed Community must have (1) a poverty rate of at least 30 percent, provided no individual census tracts has a poverty rate of less than 20 percent (according to the most recent census); and (2) an unemployment rate that is at least 1.5 times the national average (according to the most recent Bureau of Labor Statistics data[1]).

[1] Census tracts meeting these distress criteria are some of the most distressed in the nation. Using 2000 Census and BLS data, there are some 2,326 census tracts that qualify for the BEA Program. These tracts

The NMTC Program requires that substantially all of the investments made by a CDE using NMTC-related investment proceeds be invested in low-income communities, geographic areas meeting certain economic distress criteria. Investments must be made in census tracts where the area median income is 80 percent or less than the statewide area median income (or, in the case of metropolitan areas, metropolitan area median family income, if greater), or where the poverty rate is 20 percent or greater. Applicants to the first round of the NMTC Program were reviewed on a competitive basis. Applicants that indicated that they intend to target their activities to communities with higher levels of economic distress than required by statute generally scored more favorably.

Certified CDFIs and CDEs. CDFIs are building a financial services network that is focused on our most economically deprived communities and citizenry. CDFI Fund estimates show that certified CDFIs' Target Markets cover 100 percent of non-metropolitan Hot Zones and 77 percent of metropolitan Hot Zones[2]. There is at least one CDFI headquartered in each state, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

CDFIs are specialized financial institutions that operate in markets, increasingly in partnership with traditional lenders. The organizations we support are often able to lend in ways that are more flexible or not available to traditionally regulated financial institutions. As of February 1, 2003, we have certified 633 financial institutions as CDFIs:

Certified CDFIs			
	FY 2002 (As of 2/1/02)	**FY 2003 (As of date 2/1/03)**	**FY 2004 (Projected)**
Total CDFIs	**513**	**633**	**706**
Banks, Thrifts, Holding Cos.	58 (11%)	72 (11%)	85 (12%)
Credit Unions	94 (18%)	117 (18%)	120 (17%)
Loan Funds	344 (67%)	424 (67%)	475 (67%)
Venture Funds	17 (3%)	20 (4%)	26 (4%)

Through the NMTC Program, the CDFI Fund designates entities as community development entities (CDEs). To qualify for CDE designation by the CDFI Fund, an entity must be a domestic corporation or partnership that: (1) has the primary mission of serving, or providing investment capital for low-income communities or low-income persons; and (2) maintains accountability to residents of low-income communities

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represent 4 percent of all US census tracts and less than 12 percent of the 20,433 tracts that are considered "Low and Moderate Income."

[2] Please note that CDFI Target Markets were originally geocoded using 1990 Census tracts and county boundaries and that CDFI Target Markets are subject to change due to post-award amendments. Consequently, the total estimates are subject to adjustment, due both to changes in tract and county boundaries between the 1990 and 2000 Census (which the CDFI Fund's Hot Zones are based on) and to amendments to individual CDFI Target Markets.

through representation on a governing or an advisory board. Entities may apply to become CDEs even if they do not plan to seek a NMTC allocation. Such entities presumably have a strategy of selling loans to a CDE with an allocation, or seeking an investment or loan from a CDE with an allocation. As of February 11, 2003, the CDFI Fund has certified 821 organizations as CDEs.

Certified CDEs		
	FY 2003 (As of 2/11/03)	**FY 2004 (Projected)**
Total CDEs	**821**	**1,200**
CDFIs	335 (41%)	400 (33%)
SBA designated SSBICs	9 (1%)	15 (1%)
Other entities	477 (58%)	785 (66%)

New Markets Tax Credit (NMTC) Program Overview. The intent of the Community Renewal Tax Relief Act of 2000 is to attract private sector investment in businesses located in low-income communities. Through the NMTC Program, taxpayers will be provided a credit against Federal income taxes for qualified equity investments made to acquire stock or other equity interests in designated CDEs. In turn, substantially all of the proceeds of qualified equity investments must be used by the CDE to make qualified investments in low-income communities. These qualified low-income community investments include loans to or equity investments in, businesses or CDEs operating in low-income communities.

The NMTC Program creates a capitalization mechanism that many of the larger, more established CDFIs could advantage. In addition, other non-CDFIs may participate as well – thereby widening the pool of entities and capital sources involved in building the economies of our low-income communities. In this regard, the NMTC Program helps to supplement the CDFI Program; however, the NMTC Program is limited to areas that qualify as low-income communities and, to attract investors, the underlying business activity of the CDE must be able to deliver a return on investor's capital at risk. Those CDFI activities that are outside of the NMTC Program's eligible low-income communities and are of such risk that investment motivated capital is inappropriate will not be able to generally benefit from the NMTC Program.

By offering a tax credit, the NMTC Program encourages private investment in low-income communities. If investors embrace the program, it will be a significant source of new capital that could help to stimulate new industries and entrepreneurs, diversify the local economy, and generate new jobs in low-income communities.

The tax credit provided to the investor will cover a seven-year period. In each of the first three years, the investor will receive a credit totaling five percent of the total value of the stock or equity interest at the time of purchase. For the final four years, the value of the credit is six percent annually.

The $15 billion of equity investments for which tax credits can be claimed through the NMTC Program may be allocated between 2001-2007. Because the CDFI Fund was launching the program in 2001, the first two years' allocations were combined, and $2.5 billion was available for allocation in the just completed first round.

In FY 2003, the CDFI Fund evaluated 345 applications to the NMTC Program; these applications together requested the authority to issue $25.8 billion in equity for which NMTCs may be claimed.

On March 14, 2003, the Treasury Department, through the CDFI Fund, announced the allocation of NMTC authority to certain community development entities (CDEs), thus supporting $2.5 billion in private sector equity investments that will result in economic stimulus in low-income communities throughout the country.

The allocatees represent a broad cross section of community development entities. There are both large and small CDEs, affiliates of nonprofits as well as for-profit entities, CDEs that will focus locally as well as nationally, and CDEs that will focus on both rural and urban locations. The majority of allocatees will focus on business investments and loans and real estate investments and loans, with a lesser number making investments in other CDEs or purchasing loans from CDEs.

The allocatees in the first round of the NMTC Program show a broad geographical mix and focus for investment activity:

- Twenty-nine (43 percent) of the allocatees report a local focus within 15 states and will be allocated the authority to issue an aggregate of $732 million in equity for which NMTCs may be claimed.

- Twelve (18 percent) of the allocatees will focus investment activities within an entire state. These CDEs will be allocated the authority to issue an aggregate of $311 million in equity for which NMTCs may be claimed.

- Twenty-five allocatees (39 percent) will invest nationally or target multiple states. These CDEs will be allocated the authority to issue an aggregate pf $1.5 billion in equity for which NMTCs may be claimed.

- The allocatees in the calendar year 2002 round anticipate investing $1.7 billion in urban areas, over $508 million in rural communities, and $231 million in suburban areas.

- The primary service areas of the 2002 allocatees (and the national market allocatees who were required to list seven states they intend to serve) will encompass 40 states and the District of Columbia. There are only ten states and all U.S. territories not served primarily by the inaugural round of the 2002 NMTCs (Iowa, Idaho, Kansas, Montana, North Dakota, Nebraska, New Mexico, Rhode Island, South Dakota and Wyoming).

To achieve the Administration's goals of demonstrably improving the life of residents in impacted low-income communities, Treasury attempted to set a high bar for applicants and strove to make the selections based on a rigorous merit-based selection process. This review was conducted in the following manner:

<u>Step One:</u>

- All policy decisions regarding the selection process were made by officials separate and apart from those who reviewed and rated applications. No identifying information for any application was provided to policy officials until after the selection process was concluded.

- In scoring each application, the reviewers rated each of four evaluation sections: Business Strategy, Capitalization Strategy, Management Capacity and Community Impact, awarding up to 25 points per section. In addition, reviewers rated applicants with respect to two statutory priorities: (i) up to five points for a track record of serving disadvantaged businesses or communities, and (ii) five points for committing to invest substantially all of the proceeds from its qualified equity investments in unrelated entities.

- For consistency, the process required three reviewers to independently review and evaluate each application. The reviewers included CDFI Fund staff, other federal agency staff working in other community development finance programs, and independent private sector members of the community development finance community.

- In addition to evaluating and scoring each application, reviewers recommended an allocation amount that was supported by the information in the application.

<u>Step Two:</u>

- Advancing applications were deemed to be those with an aggregate base score (without including priority points) that was in the "good" range based on a scoring scale of weak, limited, average, good and excellent. In addition, each advancing application had to achieve an aggregate base score in the "good" range in <u>each</u> of the four application evaluation criteria.

- For each application, panelists reviewed the scores, comments and recommended allocation amounts provided by each of the first phase reviewers. A statistical review was conducted to identify anomalous scores. In cases where there was an anomalous first phase reviewer score, the comments and recommendations of a fourth independent reviewer were used to determine whether the anomalous score should be replaced.

- The review panel also reviewed a variety of compliance, eligibility, due diligence and regulatory matters. Included in this review were (i) checks to determine whether any applicants that have been awarded funds through other Fund programs were compliant with the award requirements, (ii) verification that the applicants' investor letters were consistent with the capitalization information provided in their applications, and (iii) consultation with the IRS regarding whether proposed business strategies of applicants comply with the NMTC Program regulations.

Step Three:

- After the second stage of the review process, the rank order list of applicants and the recommended allocation amounts were forwarded to the Selecting Official (the NMTC Program Manager). The Selecting Official reviewed the rank order list and the recommendations, and decided whether to accept or modify the panel's recommendations. In the event the Selecting Official's decision varied from the panel's recommendation by more than a prescribed amount, then concurrence is required by the Reviewing Official (Deputy Director). This process ensures that adequate documentation and oversight is maintained to protect the integrity of the allocation decisions.

- Per the Fund's allocation application evaluation policies and procedures, the Selecting Official's (and, as the case may be, the Reviewing Official's) allocation decisions are final.

The CDFI Fund's objectives for 2003 and 2004 are to evaluate the first round of the NMTC Program, make changes as necessary to enhance the program, publish the NMTC allocation application for the next round of allocations, and complete the awards allocation process for a combined 2003/2004 allocation round of up to $3.5 billion in NMTC allocation authority. The CDFI Fund will review applications from CDEs under a competitive review process, with the goal of finalizing award decisions in early 2004. In this manner, investors making equity investments into eligible CDEs will be able to claim tax credits early in calendar year 2004.

The CDFI Fund is developing, with the Internal Revenue Service, a compliance system for the NMTC Program to ensure that each entity that receives a NMTC allocation will continue to fulfill its CDE certification requirements and the terms of its allocation agreements with the CDFI Fund, and that the IRS has appropriate information to determine that allocatees are operating within the legislation and regulations promulgated by the IRS. The compliance system will be based in part on input provided at a meeting co-sponsored by the CDFI Fund and the General Accounting Office in March of 2002. At that meeting, academics and other community development financing experts discussed the advantages and disadvantages to various approaches to both compliance issues as well as approaches to evaluating the impact of the investments made under the NMTC Program on low-income communities.

CDFI Program Overview. Through the CDFI Program, the CDFI Fund promotes access to capital and local economic growth in distressed communities by directly investing in and supporting CDFIs. The CDFI Program provides financial assistance in the form of grants, loans, equity investments or deposits to CDFIs. Since its inception, the CDFI Fund has made over 900 CDFI Program awards, totaling $405 million.

For FY 2003, the CDFI Fund has refocused the CDFI Program to meet more effectively the Fund's objectives in three key ways: promoting a "continuum of growth" that encourages the largest and most established CDFIs to leverage non-governmental sources of capital; giving highest priority on investments that serve the most distressed geographic areas; and giving priority to initiatives that promote homeownership among low-income and other underserved populations.

The Financial Assistance Component: replaces the Core, Intermediary, and part of the Small and Emerging CDFI Assistance Components offered in past years. The Financial Assistance Component consolidates the CDFI Program's components that provide financial assistance (requiring matching funds) into one competitive funding round.

The following table depicts asset-size of CDFI Program awardees and illustrates the continuum of growth strategies:

	All CDFI Program Applicants	Financial Assistance Awards (Formerly Core & SECA)			Technical Assistance Awards		
	2000-2002	2002	2003 (Projected)	2004 (Budget)	2002	2003 (Projected)	2004 (Budget)
Total CDFIs/Awardees	842	91	40	30	61	40	30
Asset-Size CDFIs/Awardees							
≤ $5 million	71%	65%	63%	60%	82%	85%	85%
>$5 - ≤ $25 million	19%	18%	27%	30%	14%	15%	15%
>$25 - ≤ $50 million	6%	14%	8%	9%	0%	0%	0%
>$50 - ≤$500 million	4%	3%	2%	1%	4%	0%	0%
>$500 million	0%	0%	0%	0%	0%	0%	0%

The CDFI Fund recognizes that there are two broad categories of CDFIs: larger CDFIs that have greater ability to leverage private-sector resources, have greater self-sufficiency and generate higher volume of activity and corresponding community development impact, and smaller CDFIs that serve smaller, more underserved markets, are less efficient and produce lower volumes of activity, but serve critical market needs.

The Technical Assistance/Native American Technical Assistance (TA/NATA) Component allows applicants to apply for limited technical assistance funds on a rolling first-in, first-reviewed basis. This program replaces the Small and Emerging CDFI Assistance (SECA) Component and part of the Native American CDFI Technical Assistance (NACTA) Program offered in FY 2002. The main purpose of the new TA/NATA Component is to allow new and growing CDFIs to access needed technical assistance when they need it, in order to help them enhance their capacity to serve their target markets.

Entities applying to this program are on the beginning end of the "growth continuum," either as start-up or small entities. The purpose of the technical assistance provided (including staff training, technology, and outside expertise), is to push entities more quickly and effectively up the growth continuum than they would without the technical assistance. Some typical uses of TA grants include: computer system upgrades and software acquisition; developing loan underwriting policies and procedures; evaluating current loan products and developing new ones; and training staff.

Native American Strategic Plan; the NACD Program; the Native American CDFI Training Program. The CDFI Fund is preparing a Native American Strategic Plan. It will address the issues of CDFI reach and service to Native American, Alaska Native and Native Hawaiian communities; increasing capacity within these communities to respond to credit, investment and financial services needs; and attracting other existing resources to these underserved communities.

The CDFI Fund is making great strides in its efforts to increase the capacity of CDFIs to respond to credit, investment and financial services needs within Native American, Alaska Native and Native Hawaiian communities.

In FY 2002, the CDFI Fund made its first set of awards under the NACTA Program. A total of 38 organizations were selected to receive a total of $2.7 million in technical assistance grants. Eleven awards were made to CDFIs or entities planning to become CDFIs, and 27 awards were made to entities, such as Tribes and Tribal housing authorities, proposing to create separate CDFIs. NACTA-funded organizations are based in 18 states. The successful outcome of the launch of the NACTA Program has greatly increased the CDFI Fund's reach in support of Native American, Alaska Native, and Native Hawaiian communities, and is building an emerging network of CDFIs focused on these communities. The CDFI Fund also has presented information on its programs to existing CDFIs and those interested in starting CDFIs at several premier Native American, Alaska Native, or Native Hawaiian conferences. Senior staff also has met with Federal agencies and other key organizations to explore partnership possibilities.

Already in FY 2003, the CDFI Fund:

- Modified the FY 2002 NACTA Program by separating it into two parts: (i) the NATA Component (of the CDFI Program's Technical Assistance Component) and (ii) the NACD Program. Entities such as Tribes or non-profit organizations serving Native American, Alaska Native, and Native Hawaiian communities that want to create CDFIs can apply for technical assistance funds to develop plans to create CDFIs over a three-year period. Applications for both programs are currently available. The CDFI Fund anticipates making funding decisions by the end of July 2003; and

- Awarded a contract to the National Community Capital Association and its sub-contractor, First Nations Oweesta Corporation, to provide technical support services to design, develop, conduct, and administer an action-oriented training curriculum to facilitate the development of CDFIs for the purpose of providing access to debt or equity capital in Native American, Alaska Native, or Native Hawaiian communities.

Through the end of FY 2003, the Fund will solicit contractors to:

- Conduct financial literacy training in Native American, Alaska Native, or Native Hawaiian communities through out the country; and

- Provide direct, on-site technical assistance to Tribes or non-profit organizations serving Native American, Alaska Native, and Native Hawaiian communities. Such technical assistance would include help in creating or strengthening a CDFI or addressing specific barriers to small business or home financing (including those identified in the CDFI Fund's 2002 Native American Lending Study), on reservations.

In FY 2004, the CDFI Fund will:

- Using FY 2003 appropriated dollars, the CDFI Fund will implement a program targeted to Native American, Alaska Native, and Native Hawaiian organizations that will provide financial assistance for use as loans or investment capital. Recognizing that not all Tribes will have the capacity to create a CDFI, eligibility for this program would include partnerships between Native American, Alaska Native, or Native Hawaiian organizations partnered with traditional depository institutions as well as Native-focused CDFIs.
- Design a demonstration program to support the development of partnerships, innovative products, and delivery mechanisms to meet the financing needs of Native American, Alaska Native, and Native Hawaiian communities. The CDFI Fund will work with other Federal agencies to develop and implement this pilot to enhance rather than duplicate their activities.

Training Program. The Training Program is aimed at supporting the CDFI Fund's strategic goal of strengthening the organizational capacity and expertise of CDFIs and other Financial Service Organizations. The Training Program, which was started in FY 1999, provides funds that support the development and delivery of training products to CDFIs and other entities engaged in community development finance. Training is addressed via classroom instruction, web-based distance learning, and other electronic formats. The CDFI Fund is particularly excited about providing the support to help build the electronic teaching capacity of the CDFI industry. Through distance learning, the cost of accessing training is reduced for the CDFIs (elimination of the time and cost of travel) and the ability of CDFIs that are either of limited resources or of remote locations to access training is enhanced.

By the end of calendar 2002, two of the training providers completed their efforts under the training contract with the CDFI Fund. The remaining two will continue to provide training through this fiscal year. Training provided in FY 2003 is largely through distance learning technology.

Bank Enterprise Award (BEA) Program Overview. The BEA Program is aimed at expanding financial service organizations' community development lending and investments through regulated institutions.

The BEA Program provides monetary incentives for banks and thrifts to expand investments in CDFIs and/or to increase lending, investment and service activities in distressed communities. BEA Program awards have varied in size from less than $1,000 to almost \$3 million, depending upon the type and amount of assistance provided by the bank and the activities being funded through the bank's investments. In general, banks that provide equity investments to CDFIs are likely to receive the largest awards relative to the size of their investments.

The Administration recently completed a comprehensive evaluation of the BEA Program to ensure that it is as effective and efficient as possible
The CDFI Fund concluded that the BEA Program regulations should be revised to target awards to "personal wealth" and "community asset" building activities, and to those CDFIs with a greater need for the incentive provided by the award to facilitate their bank partnerships. Thus, the CDFI Fund initiated regulatory changes to the BEA Program to take effect with the FY 2003 funding round.

The CDFI Fund is currently considering how to better distinguish the BEA Program from the mandates of the Community Reinvestment Act, and to ensure that awardees use BEA Program awards for community development activities.

The Administration supports continuation of a reconstituted BEA Program. An effective BEA Program provides the Treasury Department with an effective strategy to engage traditional banks and thrifts in helping us achieve our goal of improving the economic conditions of underserved areas through insured depository institutions. The role that banks and thrifts play is critical to capital access. We need to encourage them to target these underserved communities in ways that do not impede safe and sound banking practices in a sustainable manner.

Rural Community Assistance. The FY 2002 appropriations for the CDFI Fund contained report language requesting an update on rural lending practices as part of the fiscal year 2003 budget submission. CDFI Program and BEA Program awardees are indeed reaching rural areas. In 2002, 60 percent of awardees receiving financial assistance, and 50 percent of technical assistance awardees, indicated that they served rural areas as all or part of their markets.

Of 156 surveyed awardee CDFIs, 20 (13 percent) estimated that 100 percent of their activities served rural areas and an additional 23 (15 percent) estimated that 51 to 99 percent of their activities served rural areas. Considering that 20 percent of U.S. households reside in non-metropolitan areas (Census 2000), the percentage of CDFI Fund awardees that target more than half their activities to rural areas (28 percent) compares favorably.

Secondary Market Study. The CDFI Fund is conducting a study to explore the possibility of expanding the secondary market for CDFI loans. Selling loans on the secondary market while common among traditional lenders is not a general practice among CDFIs. In fact, very few CDFIs have engaged in loan sales to date. If CDFI loans can be made attractive to potential investors and investors are willing to pay a reasonable price, the CDFI industry will gain a major source of private sector capital that is likely to grow with the industry's needs and will limit the CDFIs need for additional capitalization.

The CDFI Fund's study will examine the current and future capital needs of CDFIs, and will make recommendations. The study will involve consultations with CDFIs, potential loan purchasers and others with an interest in the secondary market. A draft report is expected in the summer of 2003.

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As you can see, the CDFI Fund has made substantial progress over the last year. The CDFI Fund's programs represent a continuum of capital, investment and incentive opportunities aimed at developing affordable housing, promoting homeownership, starting and expanding businesses, meeting unmet market needs, and stimulating economic growth in our nation's low-income and distressed areas. In short, the goal of the CDFI Fund is to help bring mainstream capital to those people and communities that have been overlooked. The CDFI Fund has made significant strides in the integration of its performance measures in the budget process.

Again, I thank you for the opportunity to present my testimony in support of the President's FY 2004 budget request and look forward to answering any questions you may have for me.